

STATE ADMINISTRATION

Statewide Unallocated Reduction

The Governor's Budget includes \$150 million in unallocated reductions to most departments' state operations budgets. This is similar to the Control Section 4.10 reductions of 2004-05; however, the means for the budget-year reductions are unspecified. Departments may reduce their budgets using layoffs, hiring freezes, procurement reductions, or other administrative means. The Legislature may want to consider the impacts of these reductions *on a departmental basis* to ensure that no legislative priorities are harmed by these reductions.

LEGISLATIVE / EXECUTIVE

This section includes the budgets of constitutional officers, the Legislature, and agency secretaries.

0650 Office of Planning and Research

The Office of Planning and Research (OPR) assists the Administration with planning, research and liaison with local governments. OPR also oversees programs for small business advocacy, rural policy, environmental justice, and helps implement decisions made within the Administration. In addition, the office has responsibilities pertaining to state planning, California Environmental Quality Act assistance, environmental and federal project review procedures, and oversees the California Service Corps. Total proposed budget expenditures are \$47.2 million, of which \$4.1 million is from the General Fund.

Summary of Expenditures				
(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Programs				
State Planning and Policy Development	\$3,420	\$4,153	\$733	21.4
California Service Corps	43,818	43,164	-654	-1.5
Unallocated Reduction	0	-62	-62	0.0
Total, Programs	\$47,238	\$47,255	\$17	0.0
Fund Source				
General Fund	\$2,878	\$4,076	\$1,198	41.6
Property Acquisition Law Money Acct.	521	0	-521	-100.0
Federal Trust Fund	42,761	42,779	18	0.0
Reimbursements	1,078	400	-678	-62.9
Total, Fund Source	\$47,238	\$47,255	\$17	0.0

Key Budget Adjustment

Augmentation of \$390,000 and one position for services related to developing guidelines for tribal consultations.

0820 Department of Justice

It is the responsibility of the Attorney General to uniformly and adequately enforce the laws of the State of California. Under the direction of the Attorney General, the Department of Justice (DOJ) enforces state laws, provides legal services to state and local agencies, and provides support services to local law enforcement agencies.

The budget proposes a total of \$687.7 million for the DOJ, an increase of \$44.7 million or 6.6 percent from revised current year budget. The proposed General Fund support of \$322.5 million represents an increase of \$3.6 million, or 1.1 percent from the revised current-year budget.

Summary of Program Requirements

(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Directorate and Administration	\$25,810	\$27,418	\$1,289	5.0%
Distributed Directorate and Administration	-25,810	-27,418	-1,289	5.0%
Legal Support and Technology	46,082	47,723	993	2.2%
Distributed Legal Support and Technology	-46,082	-47,723	-993	2.2%
Executive Programs	14,136	14,160	1,535	10.9%
Civil Law	120,691	116,247	9,522	7.9%
Criminal Law	113,810	114,506	7,203	6.3%
Public Rights	63,769	69,437	3,466	5.4%
Law Enforcement	172,551	174,367	13,007	7.5%
Criminal Justice Information Services	166,358	170,960	14,184	8.5%
Gambling	15,233	15,307	-248	-1.6%
Firearms	12,030	12,293	-2,180	-18.1%
State-Mandated Local Programs	1	420	0	0.0%
Unallocated Reduction	-1800		-1,800	100.0%
Total	\$676,779	\$687,697	\$44,689	6.6%

Highlights**Budget-Year Adjustments**

- A General Fund increase of \$4 million for a Criminal Justice Information System Redesign - to redesign the Wanted Persons, Stolen Vehicles, Supervised Release File, Firearms Eligibility Applicants, and Domestic Violence Restraining Order automated database systems.

- A General Fund increase of \$1.7 million and 12 positions to the Bureau of Forensics to handle the increase in criminalistics workload and an increase of \$1.5 million General Fund to improve and replace equipment used by the Bureau of Forensic Services' Criminalistics Laboratory System.
- An increase of \$11.2 million from the DNA Identification Fund and 46 positions to begin implementation of Proposition 69, which makes any person convicted of a felony eligible for inclusion in the Forensic DNA Identification Database and Data Bank and the California Automated Palm Print System.
- A reduction of \$283,000 General Fund from the Spousal Abuser Prosecution (SAP) program. The SAP program provides funding to 47 multidisciplinary teams statewide for the vertical prosecution of domestic violence cases. A total of \$2.8 million General Fund remains in the budget to continue the existing program.

0840 State Controller

The State Controller is the Chief Financial Officer of the state. The primary functions of the State Controller are to provide sound fiscal control over both receipts and disbursements of public funds; to report periodically on the financial operations and condition of both state and local government; to make certain that money due the state is collected through fair, equitable, and effective tax administration; to provide fiscal guidance to local governments; to serve as a member of numerous policy-making state boards and commissions; and to administer the Unclaimed Property and Property Tax Postponement Programs. Total proposed budget expenditures are \$124.7 million, of which \$72.7 million is from the General Fund.

Summary of Expenditures				
(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Programs				
Accounting and Reporting	\$12,680	\$14,266	\$1,586	12.5
Audits	22,908	24,232	1,324	5.8
Personnel and Payroll				
Services	26,338	32,559	6,221	23.6
Information Systems	14,080	14,227	147	1.0
Collections	15,825	15,455	-370	-2.3
Disbursements and Support	35,513	35,666	153	0.4
Distributed to Other				
Programs	-9,645	-9,661	-16	0.0
Loan Repayment Programs	-2,140	-2,054	86	0.0
Unallocated Reduction				
pursuant to Budget Control				
Section 33.50	-449	0	449	0.0
Total, Programs	\$115,110	\$124,690	\$9,580	8.3
Fund Source				
General Fund	\$70,969	\$72,695	\$1,726	2.4
Federal Trust Fund	1,253	1,258	5	0.4
Reimbursements	32,882	34,020	1,138	3.5
Other Funds	10,006	16,717	6,711	67.1
Total, Fund Source	\$115,110	\$124,690	\$9,580	8.3

Key Budget Adjustments

Augmentation of \$1.3 million and 13.7 positions for Unclaimed Property Program activities and external legal costs.

Augmentation of \$10.4 million and 29.7 positions for development of a human resources management system. This workload is part of an ongoing multi-year project to replace existing employment history, payroll, leave accounting, and position control systems.

Increased funding for the Apportionment Payment System overhaul of \$1.69 million. This sum would fund the second year of a multi-year project to replace the existing overburdened computer system.

Increased funding for the California Automated Travel Expense Reimbursement System (CalATERS) by \$731,000 to provide better management of state employee travel activities.

0855 Gambling Control Commission

The California Gambling Control Commission (GCC) was established by Chapter 867, Statutes of 1997 (SB 8, Lockyer). The five-member commission is appointed by the Governor subject to Senate confirmation. The GCC is responsible for setting policy, issuing licenses, administering, adjudicating, and regulating all matters related to controlled gambling in California.

In addition, pursuant to the Tribal Gaming Compacts and Executive Order D-31-02, the GCC is responsible for (1) administering the gaming license process, (2) controlling, collecting and accounting for all gaming device license fees, (3) making findings of suitability regarding key employees of tribal gaming operations, and (4) ensuring the allocation of gaming devices among California's tribes does not exceed the allowable number in the compacts. Included with this responsibility is serving as Trustee for the Revenue Sharing Trust Fund and Administrator of the Special Distribution Fund.

The budget proposes \$139.7 million from special funds for the GCC which is \$13,000 greater than anticipated expenditures in the current year. Of the total funding, \$13.2 million is proposed for state operations, an increase of \$3.1 million above estimated current year expenditures. The primary reason for the increase is related to a proposal to add new funding based on compact workload (highlighted below). The budget also proposes \$126.5 million for local assistance – primarily for making payments to non-gaming tribes from the Revenue Sharing Trust Fund and for local mitigation efforts.

Summary of Fund Sources

(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Indian Gaming Revenue Sharing Trust Fund	\$98,091	\$96,500	-\$1,591	-1.6%
Indian Gaming Special Distribution Fund	39,284	40,885	1,601	4.1%
Gambling Control Fund	2,308	2,311	3	0.1%
Total	\$139,683	\$139,696	\$13	0.0%

Highlight

Compact Workload Adjustment. The budget includes a current-year augmentation of \$2.2 million (\$2.2 million Special Distribution Fund and \$54,000 Gambling Control Fund) and a 2005-06 augmentation of \$4.8 million (\$4.7 million Special Distribution Fund and \$124,000 Gambling Control Fund). The proposal includes adding 43.1 new positions to bring the total number of positions at the GCC to 88.7. The Administration indicates that the new funding and positions will address workload resulting from the new Tribal-State Gaming Compacts in 2004, as well as the development and implementation of a state testing laboratory and field testing program, and auditing activities to ensure compliance with new and amended Compacts and gaming laws.

0860 State Board of Equalization

The State Board of Equalization (BOE), the Franchise Tax Board (FTB), and the Employment Development Department are the state's major tax collection agencies. BOE collects state and local sales and use taxes and a variety of business and excise taxes and fees, including those levied on gasoline and diesel fuel, alcoholic beverages and cigarettes, as well as others. BOE

also assesses utility property for local property tax purposes, oversees the administration of the local property tax by county assessors, and serves as the appellate body to hear specified tax appeals, including FTB decisions under the personal income tax and bank and corporation tax laws. Total proposed budget expenditures are \$364.9 million, of which \$209.5 million is from the General Fund.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Programs				
County Assessment Standards	\$8,027	\$8,094	\$67	0.8
State Assessed Property	6,772	6,827	55	0.8
Sales and Use Tax	281,178	281,006	-172	-0.1
Cigarette and Tobacco Products Tax	12,667	17,094	4,427	34.9
Diesel and Use Fuel Tax	16,929	16,242	-687	-4.1
Administration	33,213	33,213	0	0.0
Distributed Administration	-33,213	-33,213	0	0.0
Other Programs	32,998	35,655	2,657	8.1
Unallocated Reduction	0	-62	-62	0.0
Total, Programs	\$358,571	\$364,856	\$6,285	1.8
Fund Source				
General Fund	\$207,889	\$209,481	\$1,592	0.8
Motor Vehicle Fuel Account	20,169	19,402	-767	-3.8
Federal Trust Fund	32	0	-32	-100.0
Reimbursements	106,033	101,464	-4,569	-4.3
Other Funds	24,448	34,509	10,061	41.2
Total, Fund Source	\$358,571	\$364,856	\$6,285	1.8

Key Budget Adjustments

The proposed BOE augmentations are driven primarily by recently enacted legislation affecting their tax and fee responsibilities. These include:

- \$5.7million in special funds and 76.8 positions to administer the electronic waste recycling fee (SB 50),
- \$850,000 in special funds and 9.6 positions to fund ongoing cigarette and tobacco products taxes (Proposition 10 – The California Children and Families First Act of 1998),
- \$224,000 in special funds and 5.6 positions for the tire recycling fee increase (AB 923), and

- \$79,000 in special funds and one position for the underground storage tank maintenance fee increase (AB 1906).

0890 Secretary of State

The Secretary of State (SOS), a constitutionally established office, is the chief election officer of the State and is responsible for the administration and enforcement of election laws. The office is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the office is responsible for the appointment of notaries public, enforcement of notary laws and preservation of certain records with historical significance. All documents filed with the office are a matter of public record and of historical importance. The Secretary of State's executive staff determines policy and administration for Elections, Political Reform, Business Programs, Archives, Information Technology and Management Services Divisions. Total proposed budget expenditures are \$76.4 million, of which \$30.3 million is from the General Fund.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Programs				
Business Programs	\$39,068	\$41,353	\$2,285	5.8
Elections	249,129	17,653	-231,476	-92.9
Political Reform	3,329	2,537	-792	-23.8
Archives	13,834	14,131	297	2.1
Executive Administration	2,844	2,950	106	3.7
Distributed Executive Administration	-2,844	-2,950	-106	0.0
Management Services	5,646	5,063	-583	-10.3
Distributed Management Services	-5,266	-4,683	583	0.0
Information Technology	7,534	7,555	21	0.3
Distributed Information Technology	-7,216	-7,237	-21	0.0
Local Assistance	42,600	0	-42,600	-100.0
State Mandated Local Programs	4	0	-4	-100.0
Total, Programs	\$348,662	\$76,372	-\$272,290	-78.1
Fund Source				
General Fund	\$40,466	\$30,299	-\$10,167	-25.1
Secretary of State's Business Fees	31,034	33,319	2,285	7.4
Federal Trust Fund	266,100	1,700	-264,400	-99.4
Reimbursements	9,462	9,454	-8	-0.1
Victims of Corporate Fraud Compensation	1,600	1,600	0	0.0
Total, Fund Source	\$348,662	\$76,372	-\$272,290	-78.1

Key Budget Adjustments

Suspension of four mandates (Voter Registration Procedures, Absentee Ballots, Permanent Absentee Voters, and Brendan Maguire Act) for the budget year.

Augmentation of \$3.02 million for election costs in excess of base funding for such costs.

Issues

Special Items of Expense. The Governor's Budget expenditure of \$3.02 million for "special items of expense" is meant to cover anticipated elections costs in the budget year. In previous years, the Secretary of State has usually relied on the deficiency process to pay for these costs, a practice inconsistent with the "critical and unanticipated" criteria of that process. Consequently, budgeting election costs beforehand appears prudent. However, based on information provided in previous deficiency submissions, it is unclear that all proposed activities to be funded out of the \$3.02 million will be viewed by the Legislature as being strictly confined to election activities and not a routine Secretary of State process.

Help America Vote Act (HAVA) Spending. The 2003-04 Budget Act included \$85 million in federal funds for the Secretary of State to implement election reform changes required by the federal HAVA of 2002. HAVA funds are being disbursed nationwide in order to implement broad election reforms to improve the accuracy and performance of state's voting processes. For California, this includes developing a statewide voter database and replacing punch card voting machines with more modern equipment. The 2004-05 budget appropriated an additional \$264 million in federal funds for these purposes.

To date, the SOS has been able to spend relatively little HAVA funds due primarily to a delay in the promulgation of federal spending guidelines and lack of an approved spending plan. Additionally, fund misuse and mismanagement documented in a December 2004 Bureau of State Audits report has raised questions over how HAVA funds have been spent.

In the 2004-05 Budget Act, the Secretary of State was directed to provide the Legislature with a spending plan for review prior to receiving authority to spend further HAVA funds. When the SOS sought expedited approval of a partial plan in September 2004, the Joint Legislative Budget Committee (JLBC) rejected all parts of that request not directly tied to the November election duties.

As of January 2005, the Secretary of State has not provided the Legislature a spending plan for the more than \$300 million in outstanding available federal funds. Once the plan is submitted, the Legislature must evaluate the merits of the programmatic expenditures, set priorities for funding, and approve measures for success.

0950 State Treasurer's Office

The State Treasurer, a constitutionally established office, provides banking services for State government with the goals of minimizing interest and service costs and maximizing yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the State; investment of temporarily idle State monies; administration of the

sale of State bonds, their redemption and interest payments; and payment of warrants drawn by the State Controller and other State agencies.

The Treasurer's Office also plays a central administrative role to numerous state boards, authorities and commissions. The Treasurer serves as chair or member of these various agencies that organizationally report to the State Treasurer's Office. Many of these agencies are authorized to issue debt for specific purposes as permitted by law. These agencies also may advise California municipalities on debt issuance and oversee the state's various investment operations.

Total proposed budget expenditures for the State Treasurer's Office are \$22.7 million, of which \$6.1 million is from the General Fund.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Programs				
Investment Services	\$2,715	\$2,709	-\$6	-0.2
Cash Management	7,623	7,603	-20	-0.3
Public Finance	5,992	5,973	-19	-0.3
Securities Management	4,260	4,249	-11	-0.3
Administration and Information Services	9,714	9,874	160	1.6
Distributed Administration	-7,680	-7,693	-13	0.0
Total, Programs	\$22,624	\$22,715	\$91	0.4
Fund Source				
General Fund	\$6,028	\$6,068	\$40	0.7
Reimbursements	16,596	16,647	51	0.3
Total, Fund Source	\$22,624	\$22,715	\$91	0.4

Key Budget Adjustment

The Governor's Budget includes Budget Bill language that would enable the Director of Finance to authorize a no interest, short-term loan from the General Fund to the State Treasurer's Office for the purpose of meeting cash shortfalls resulting from delayed reimbursements from other funds. A notice of transfer must be filed with the Joint Legislative Budget Committee 30 days prior to the proposed transfer date.

STATE AND CONSUMER SERVICES AGENCY

This section includes the budgets of the Science Center; the Department of Consumer Affairs (including all bureaus, boards programs and divisions); the Department of Fair Employment and Housing; the Franchise Tax Board; the Department of General Services; the State Personnel Board; the Public Employees' Retirement System; and the State Teachers' Retirement System. Additionally, this section includes the proposed Department of Technology Services, which would consolidate the Stephen P. Teale Data Center, the Health and Human Services Data Center, and certain telecommunications functions of the Department of General Services. Departments with major budget change proposals are highlighted.

1100 California Science Center

The California Science Center is an educational, scientific, and technological center administered by a nine-member board of directors appointed by the Governor. It is located in Exposition Park, a 160-acre tract just south of the central part of Los Angeles, which is owned by the state in the name of the Science Center. In a number of state-owned buildings, the Science Center presents a series of exhibits and conducts associated educational programs focusing on scientific and technological developments of the state. In addition, the Science Center, through the Park Manager, is responsible for maintenance of the park, public safety, and parking facilities.

The Governor proposes total expenditures of \$19.9 million (\$14.5 million General Fund) for the Science Center – an increase of \$121,000. The Administration proposes an increase of \$573,000 in the Exposition Park Improvement Fund appropriation to fund security improvements, grounds maintenance, and other expenses. The budget also includes a \$183,000 unallocated General Fund reduction, which coupled with baseline General Fund increases, results in a net General Fund reduction of \$20,000. Additionally, the 2004 Budget Act includes provision language that requires the Science Center to report on options for charging a fee for admissions to offset General Fund support.

1110 & 1111 Department of Consumer Affairs

The Department of Consumer Affairs is responsible for promoting consumer protection while supporting a fair and competitive marketplace. The department serves as an umbrella for 27 semi-autonomous boards and 11 bureaus and programs that regulate over 230 professions. The 2005-06 budget for Consumer Affairs and its associated boards, bureaus, and commissions totals \$386.7 million (\$376,000 General Fund), which is an increase of \$34.3 million from the current year.

Major Budget Proposals

Elimination of Boards and Commissions. The Governor proposes to eliminate the below Boards and Commissions with their functions assumed by the Department of Consumer Affairs. This proposal is one of the structural changes the Governor has submitted to the Little Hoover Commission.

9-1-1 Advisory Board	Physical Therapy Board of California
Accountancy, California Board of	Physician Assistant Committee
Acupuncture Board	Pilot Commissioners Board
Alarm Company Operator Disciplinary Review Comm.	Podiatric Medicine, Board of
Architects Board, California	Private Security Disciplinary Review Commission (North)
Barbering and Cosmetology, California State Board of	Private Security Disciplinary Review Commission (South)
Behavioral Sciences, Board of	Professional Engineers and Land Surveyors, Board of
Building Standards Commission	Psychology, California Board of
Contractors State License Board	Registered Nursing, California Board of
Court Reporters Board of California	Registered Veterinary Technicians Committee
Dental Auxiliaries, Committee on	Respiratory Care Board of California
Dental Board of California	Seismic Safety Commission, California
Geologist and Geophysicists, Board for	Service Agency Advisory Committee
Guide Dogs for the Blind, State Board of	Speech-Language Pathology and Audiology Board
Hearing Aid Dispensers Advisory Committee	Structural Pest Control Board
Landscape Architects Technical Committee	Mexican American Veterans' Memorial Commission
Medical Board of California	Veterans Memorial Commission, California Vietnam
Occupational Therapy, California Board of	Veterinary Medical Board
Optometry, State Board of	Vocational Nursing and Psychiatric Technicians, Board of
Pharmacy, California State Board of	

Underground Economy Statewide Investigative Fraud Team. The Governor proposes an augmentation of \$998,000 (special fund) and 11 three-year limited-term positions for the purpose of enforcement activities against unlicensed contractors who are part of the underground economy. The Department of Industrial Relations and the Employment Development Department are the other members of the proposed Economic and Employment Enforcement Coalition.

Bureau of Automotive Repair – Repair Assistance Program. The Governor proposes an augmentation of \$4.8 million (special fund) and 17 positions to meet consumer demand for the Repair Assistance Program. The Repair Assistance Program provides qualified consumers financial assistance toward the repair of a vehicle that fails its biennial Smog Check inspection. Additional revenue is available for this program from legislation enacted in 2004 - SB 1107 (Committee on Budget and Fiscal Review) and AB 2128 (Jackson).

Bureau of Automotive Repair – Vehicle Retirement Program. The Governor proposes an augmentation of \$13.6 million (special fund) and 21 positions to meet consumer demand for the Vehicle Retirement Program. The Vehicle Retirement Program offers eligible motorists \$500 to retire their high-polluting vehicle. Additional revenue is available for this program from legislation enacted in 2004 – SB 1107 (Committee on Budget and Fiscal Review) and AB 2128 (Jackson).

1700 Department of Fair Employment and Housing

The objective of the Department of Fair Employment and Housing (DFEH) is to protect the people of California from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence.

The Governor proposes total expenditures of \$18.8 million (\$13.3 million GF), a 1 percent increase from the current year. The Administration proposes an unallocated General Fund reduction of \$211,000 for DFEH.

1730 Franchise Tax Board

The Franchise Tax Board (FTB) administers state personal income tax and corporation taxes for the State of California, collects debt on behalf of other state agencies and local entities, and performs audits of campaign statements and lobbyist reports authorized by the Political Reform Act of 1974. The FTB is tasked to correctly apply the laws enacted by the Legislature; to determine the reasonable meaning of various code provisions in light of the legislative purpose in enacting them; and to perform this work in a fair and impartial manner, with neither a government nor a taxpayer point of view. Total proposed budget expenditures for the Franchise Tax Board are \$699.7 million, of which \$512.3 million is from the General Fund.

Summary of Expenditures				
(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Programs				
Tax	\$416,104	\$422,096	\$5,992	1.4
Homeowners and Renters	5,688	5,199	-489	-8.6
Political Reform Audit	1,481	0	-1,481	-100.0
Child Support Collections	16,455	16,760	305	1.9
Child Support Automation	155,606	236,988	81,382	52.3
DMV Collections	5,568	5,647	79	1.4
Court Collection Program	5,762	5,966	204	3.5
Contract Work	7,344	7,408	64	0.9
Administration	23,051	23,051	0	0.0
Distributed Administration	-23,051	-23,051	0	0.0
Lease Revenue Bond Payment	7,410	7,410	0	0.0
Unallocated Reduction	-3,139	-7,840	-4,701	0.0
Total, Programs	\$618,279	\$699,634	\$81,355	13.2
Fund Source				
General Fund	\$485,929	\$512,273	\$26,344	5.4
Motor Vehicle Account	1,927	1,956	29	1.5
Motor Vehicle License Fee Account	3,640	3,691	51	1.4
Court Collection Account	5,762	5,966	204	3.5
Reimbursements	120,938	175,654	54,716	45.2
Other Funds	83	94	11	13.3
Total, Fund Source	\$618,279	\$699,634	\$81,355	13.2

Key Budget Adjustments

Augmentation of \$26.3 million General Fund and \$53.2 million special funds, and 15.5 positions for the California Child Support Automation Project. These expenditures are part of a ten-year plan to overhaul how the state tracks and collects child support payments.

Augmentation of \$1.8 million and 17.1 positions to increase staffing for the Abusive Tax Shelter Taskforce. Estimated revenue gains from this expenditure are \$43 million in 2005-06 and \$60 million in 2006-07.

Augmentation of \$8.6 million and 99.2 positions to enhance “tax gap” (the difference between what is owed to the state and what is paid) enforcement activities. Estimated revenue gains from this activity are \$34 million in 2005-06 and \$44 million in 2006-07.

Reduction of \$575,000 and 12 positions for workload reductions related to the Administration’s proposed replacement of the Senior Citizen’s Property Tax Assistance Program and limiting eligibility for the Senior Citizen Renters’ Tax Assistance. (Details to these changes are found in the “9100 – Tax Relief” section.)

Issue

In recognizing the dramatic growth in abusive tax shelter schemes and tax evasion activities, the Administration has responded by proposing an augmentation to the FTB’s enforcement programs. Underlying the Administration’s proposal is an assumption of a revenues to expenditures “return.” For the last several years, the Administration has proposed and the Legislature adopted a 5:1 revenues to audit expenditures return ratio. However, given the dynamic nature of the abusive tax shelter schemes and the age of the 5:1 rule, the Legislature may wish to revisit the underlying revenues to return ratio.

1760 Department of General Services

The Department of General Services (DGS) provides management review and support services to state departments. The DGS is responsible for the planning, acquisition, design, construction, maintenance, and operation of the state’s office space and properties. It is also responsible for the procurement of materials, data processing services, communication, transportation, printing, and security.

Total proposed budget expenditures for the Department of General Services are \$970.2 million, of which \$250,000 is from the General Fund.

Summary of Expenditures				
(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Programs				
Building Regulation Services	\$145,946	\$220,462	\$74,516	51.1
Real Estate Services	344,650	328,762	-15,888	-4.6
Statewide Support Services	417,798	397,668	-20,130	-4.8
Administration	35,714	36,274	560	1.6
Distributed Administration	-12,994	-12,994	0	0.0
Total, Programs	\$931,114	\$970,172	\$39,058	4.2
Fund Source				
General Fund	\$15,000	\$250	-\$14,750	-98.3
State Emergency Telephone Number Account	152,902	144,894	-8,008	-5.2
State Motor Vehicle Insurance Account	28,455	29,248	793	2.8
Public School Planning, Design, & Construction Review Revolving Architecture Revolving Fund	31,086	31,837	751	2.4
Service Revolving Fund	38,497	36,987		
2002 State Schools Facilities Fund	630,125	696,658	66,533	10.6
	12,129	11,952	-177	-1.5
Other Funds	22,920	18,346	-4,574	-20.0
Total, Fund Source	\$931,114	\$970,172	\$39,058	4.2

Key Budget Adjustments

Reduction of \$6.2 million special funds and 114 positions at the Office of State Printing, reflecting fewer state agency printing contracts and a statewide conversion to more digital technology printing and Internet publishing. Under this proposal, “core” services to the Legislature and other state agency clients would be preserved.

Reduction of \$10.7 million special funds and 50.7 positions to reflect transferring services of the Office of Network Services to the Department of Technology Services. The Department of Technology Services is described below.

Issues

Internet Marketing of All Real Property Assets. The budget includes the creation of an Internet marketing plan to enhance the public exposure of state properties. All of the state’s real property assets—surplus and non-surplus—would be listed online, facilitating perusal and

(potentially) bid offers by private buyers. The Legislature may wish to consider whether it is in the state's best public policy interest to expose every parcel of state property to a market valuation.

Creation of a Department of Technology Services. The Governor will formally propose the creation of the Department of Technology Services in a Governor's Reorganization Plan (anticipated later this spring). The Department is expected to be funded at \$235.4 million and 776 positions. The Department of Technology Services is intended to be the "general purpose technology service provider for the executive branch" and will include the Teale Data Center, elements of the Health and Human Services Data Center, and the voice telecommunications and data networking functions of DGS' Telecommunications Division.

While such consolidation could bring efficiencies and cost savings to these technology activities, it could also add bureaucracy and slow procurement. The Legislature will want to carefully explore whether a centralized technology services department will best serve the state. Further, the Legislature will want to ensure the proper appropriation and policy oversight for technology purchases is not ceded to the Executive branch.

California Procurement Initiative for 21st Century. The Governor proposes to update state procurement practices, primarily through upgrading the CalBuy system, online reverse auctions, and enhanced training to facilitate the use of new procurement technologies. Through an extension of the "Strategic Sourcing" initiative begun in the current year, the Administration expects to save an additional \$95 million. Given the relatively minimal experience the state has with strategic sourcing and other "e-procurement" reforms, the Legislature will want to carefully examine the expense and savings assumptions behind this initiative.

1920 State Teachers' Retirement System (STRS)

The State Teachers' Retirement System provides retirement-related benefits and services to 735,000 active and retired educators in public schools from kindergarten through the community college system. This budget item shows STRS benefit expenditures and revenue, with General Fund support included as a "nonadd." General Fund support for STRS is budgeted in item 6300 – in the Education section of the budget. The 6300 item includes the Governor's proposal to permanently discontinue the State's 2.017-percent STRS contribution to save the General Fund \$469 million in 2005-06.

1955 Department of Technology Services

The Department of Technology Services (DTS) is the Governor's reorganization proposal for the consolidation of the Stephen P. Teale Data Center (Teale), the Health and Human Services Data Center (HHSDC), and certain telecommunications functions of the Department of General Services. The Administration proposes a new Technology Services Board (Board), composed of the State Chief Information Officer, the Director of Finance, the Controller, and Agency Secretaries, to provide governance and guidance to the DTS. The Administration proposes a continuous appropriation for the DTS in contrast to the current practice of budget act appropriations for the existing data centers. The Administration has submitted a total of eight budget change proposals, primarily for additional equipment and staffing. No position savings is proposed in the short-term from the consolidation.

BUSINESS, TRANSPORTATION, & HOUSING AGENCY

This section includes the budgets of the departments of Alcoholic Beverage Control, Financial Institutions, Corporations, Housing and Community Development, Office of Real Estate Appraisers, Real Estate, Managed Health Care and Stephen P. Teale Data Center. Transportation-related departments are included in the Transportation section of this overview. Departments with major budget changes are highlighted below.

2180 Department of Corporations

The Department of Corporations administers and enforces state laws regulating securities, franchise investment, lenders, and fiduciaries. The budget is proposed at \$31.1 million (State Corporations Fund), an increase of \$1.8 million.

Major Budget Proposals

Additional Examiners. The Governor proposes to augment the budget by \$1.5 million, and add 15.2 positions (7 limited-term), to meet statutorily mandated exam cycles and to provide adequate levels of industry regulation and consumer protection against lending and financing fraud.

California Electronic Access to Securities Information (Cal-EASI) Program. The Governor proposes to augment the budget by \$668,000 to expand and permanently fund the Cal-EASI document management system, which provides efficiencies in online filings by licensees and provides public access to imaged filings.

2240 Department of Housing and Community Development

A primary objective of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The department administers housing finance, economic development, and rehabilitation programs with emphasis on meeting the shelter needs of low-income persons and families, and other special needs groups. It also administers and implements building codes, manages mobilehome registration and titling, and enforces construction standards for mobilehomes.

The Governor proposes \$563.2 million (\$13.3 million General Fund) in total expenditures for the department – a decrease of \$34.9 million.

Major Budget Proposals

Federal HOME Program. The Governor proposes permanent continuation of five limited-term positions and associated expenditure authority of \$634,000 (federal funds) to administer the federal Housing and Urban Development (HUD) HOME program. The HOME program provides block grants for the creation and preservation of affordable housing.

Office of Migrant Services. The Governor proposes to redirect \$9.5 million of Proposition 46 bond funds from the Joe Serna, Jr. Farmworker Housing Grant Program's \$25 million Migratory Agricultural Worker set-aside to fund construction expenditures at the Office of Migrant Services migrant centers.

2320 Department of Real Estate

A primary objective of the Department of Real Estate is to protect the public in real estate transactions and provide related services to the real estate industry.

The Governor proposes \$34.6 million (no General Fund) in total expenditures for the department – an increase of \$1.6 million. The Administration requests a one-time augmentation of \$445,000 (special fund) to fund 16 new temporary-help positions to process the increased volume of real estate examination and license transactions.

2400 Department of Managed Health Care

The mission of the Department of Managed Health Care (DMHC) is to help California consumers resolve problems with their Health Maintenance Organizations (HMOs) and to ensure a better, more solvent and stable managed health care system.

The Governor proposes \$35.9 million (special fund) in total expenditures for the department – a decrease \$331,000. The Administration requests authority to add 4 positions for the HMO Help Center to be funded within existing resources.

2780 Stephen P. Teale Data Center

The Stephen P. Teale Data Center provides a range of information technology services and products to state agencies. The Governor proposes to merge the Teale Data Center with the Health and Human Services Data Center and certain telecommunications functions of the Department of General Services. The merged department would be called the Department of Technology Services (organizational code 1955). The Administration will submit this reorganization proposal to the Little Hoover Commission. No funding is budgeted for the Teale Data Center for 2005-06, because funding has been shifted to the new department.

GENERAL GOVERNMENT**8885 Commission on State Mandates**

The Commission on State Mandates is a quasi-judicial body that makes the initial determination of state mandated costs. The Commission is tasked to fairly and impartially determine if local agencies and school districts are entitled to reimbursement for increased costs mandated by the state.

Summary of Expenditures				
(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Programs				
Administration	\$1,218	\$1,658	\$440	36.1
Unallocated Reduction	0	-29	-29	0.0
Total, Programs	\$1,218	\$1,629	\$411	33.7
Fund Source				
General Fund	\$1,218	\$1,629	\$411	33.7
Total, Fund Source	\$1,218	\$1,629	\$411	33.7

Total proposed budget expenditures for the Commission on State Mandates are \$1.6 million, all of which is state General Fund.

Key Budget Adjustment

Augmentation of \$427,000 and four positions to reduce the backlog in the mandates test claim process (the process of determining whether a mandate exists).

Issue

State Mandated Local Cost Reimbursements. The 2004-05 budget repealed, deferred, and suspended various local reimbursement mandates and associated payments. Legislation passed in 2004 and Proposition 1A provided important reforms to the mandates process, including: requiring a statutory payback schedule for mandate deferrals, clarifying the definition of a mandate, and limiting budget options to suspending or deferring mandates.

Notwithstanding those reforms, more work must be done to improve the timeliness, accuracy, and relevancy of the mandates determination processes. This will include expediting determination and payment processes, reducing overpayments and illegitimate claims, and enhancing the Legislature's ability to eliminate or amend outdated or superseded mandates.

9100 Tax Relief

California offers a variety of tax relief programs by appropriating funds through a reduction in rates or nonrefundable tax credits. The state also provides the following tax relief through the appropriation of funds for payments to individuals or reimbursement of local agencies. Tax relief proposed in 2005-06 totals \$539.4 million, all of which is General Fund.

Summary of Expenditures (dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Programs				
Senior Citizens' Property Tax Assistance	40,494	0	-\$40,494	-100.0
Senior Citizens' Property Tax Deferral	\$11,900	\$16,600	4,700	39.5
Senior Citizen Renters' Tax Assistance	142,636	42,507	-100,129	-70.2
Homeowners' Property Tax Relief	433,200	440,000	6,800	1.6
Subventions for Opens Space ("Williamson Act")	39,388	39,661	273	0.7
Substandard Housing	0	0	0	0.0
Vehicle License Fee Offset	0	0	0	0.0
State-Mandated Local Programs	0	658	658	0.0
Total, Programs	\$667,618	\$539,426	-\$128,192	-19.2
Fund Source				
General Fund	\$667,618	\$539,426	-\$128,192	-19.2
Total, Fund Source	\$667,618	\$539,426	-\$128,192	-19.2

Key Budget Adjustments

Elimination of the Senior Citizen's Property Tax Assistance Program and a partial offset by expanding the Senior Citizen's Property Tax Deferral Program. Total savings are \$35.7 million.

Reduction to benefits for seniors participating in the Senior Citizen's Renters' Tax Assistance Program, scaling them back to 1998 levels. Total savings are \$100 million.

Funding for the following mandates: Senior Citizen's Property Tax Deferral (\$238,000), unitary countywide tax rates (\$138,000), and Allocation of Property Tax Revenue (\$285,000).

Issue

Senior Citizens' Property Tax Assistance. The Tax Relief budget item contains two significant reductions to state housing support for senior citizens: (1) the California Performance Review proposal to replace the Senior Citizen's Property Tax Assistance Program (a tax forgiveness program) with the Senior Citizen's Property Tax Deferral Program (a tax deferral program), and (2) lowering eligibility to the Senior Citizen's Renters Tax Assistance from persons making \$37,300/year to those making \$13,200/year—slightly above the federal poverty

line for a family of two. The Legislature may wish to consider the effect of these reductions on other state and local funded support services, as they could offset savings.

9210 Local Government Financing

Local governments receive a variety of subventions from the state for designated purposes such as health, welfare, and public safety programs. The state provides other assistance to local governments, primarily counties, through other direct programs contained in other items in the budget. For example, Health and Human Services has numerous programs where the state and counties jointly provide funding for services. State funding is also included in Public Safety for such issues as local crime labs and suppression of high intensity drug trafficking areas. Local Government Financing proposed in 2005-06 totals \$157.4 million, all of which is General Fund.

Summary of Expenditures				
(dollars in thousands)	2004-05	2005-06	\$ Change	% Change
Programs				
Aid to Local Governments	\$118,571	\$54,334	-\$64,237	-54.2
Citizens' Option for Public Safety (COPS)	199,725	100,000	-99,725	-49.9
Special Supplemental Subventions	650	650	0	0.0
State-Mandated Local Programs	0	2408	2,408	0.0
Total, Programs	\$318,946	\$157,392	-\$161,554	-50.7
Fund Source				
General Fund	\$318,946	\$157,392	-\$161,554	-50.7
Total, Fund Source	\$318,946	\$157,392	-\$161,554	-50.7

Key Budget Adjustments

Elimination of funding for the Juvenile Justice Crime Prevention Act program, a reduction of \$100 million General Fund.

Reduction of \$5.7 million in grants to counties for property tax administration.

Elimination of \$18.5 million in funding for 37 small counties who had received \$500,00 each in the current year.

Funding for the following mandates: open meetings act notices (\$2 million), rape victims counseling centers notices (\$187,000), and health benefits for survivors of peace officers and firefighters (\$221,000).

Funding for the Citizen's Option for Public Safety (COPS) is preserved at the current year level. COPS provides discretionary funding for local police departments, sheriffs (for front line law enforcement and jail services) and district attorneys (for prosecutions).

Issue

Juvenile Justice Grants. The budget asserts that \$25 million of the sum eliminated from Juvenile Justice Crime Prevention Act programs will be diverted to the Board of Corrections “for distribution to local governments.” It is not clear if this sum is intended to provide support for activities associated with the Juvenile Justice Crime Prevention Act. If that is the case, local agencies’ spending guidelines should be clarified for the Legislature.

9800 Employee Compensation

The budget proposes \$260.9 million (\$197.9 million General Fund) to fund compensation and benefit adjustments for existing contract obligations for state employees. This includes salary increases for Bargaining Units 5, 6, and 8, as well as increases in the employer contribution toward dental and vision care premiums.

The employee compensation savings proposed by the Governor for 2005-06, are included in a new budget item: 9955 Employee Compensation Reform. A description of these savings is outlined below.

9955 Proposed Employee Compensation Adjustments

This new budget item is included in the Governor’s Budget to report savings from proposed employee compensation adjustments. The Administration indicates that total savings of \$896.7 million (\$493 million General Fund) would be realized in 2005-06 if the proposals are approved in their entirety.

Savings from the 2004 Alternative Retirement Program. The Governor proposes to budget savings of \$155.4 million (\$85.5 million General Fund), from the Alternative Retirement Program enacted in August 2004 (SB 1105, Committee on Budget and Fiscal Review). The Administration requests the authority for the Director of Finance to reduce department budgets to capture this savings.

The Alternative Retirement Program generated long-term budget savings to support the issuance of pension obligation bonds that would provide General Fund relief in 2004-05. The Administration now expects the bonds to be sold in 2005-06 instead of 2004-05, and expects bond revenues to be \$765 million instead of \$929 million.

Savings from 2005-06 Employee Compensations Proposals. The Governor proposes various changes that would reduce net compensation to state employees. The Administration estimates savings would total \$741.3 million (\$407.7 million General Fund). These proposals would be phased in as collective bargaining agreements are renegotiated. The proposals are as follows:

- **Defined-benefit retirement plan changes for existing employees.** Beginning in 2005-06, the Governor proposes to require employees to pick up one-half of the total charges approved by CalPERS. This would shift \$374 million (\$206 million General Fund) from the state to employees in 2005-06. Additionally, the Governor proposes to allow employees to opt out of CalPERS, with an estimated savings to the state of \$164 million (\$90 million General Fund).

- **Five-day furlough of state employees.** The Governor proposes a five-day furlough of state employees to save the state an estimated \$109 million (\$60 million General Fund) in 2005-06.
- **Eliminate leave from the overtime calculation.** The Governor proposes to eliminate holiday, sick leave, vacation, annual leave, and compensating time off, from the calculation of overtime. The Administration estimates this will generate 2005-06 savings of \$36.4 million (\$20 million General Fund).
- **Health-benefit reductions.** The Governor proposes the following reductions to generate total 2005-06 savings of \$55.3 million (\$30.0 million General Fund):
 - New employees must work 6 months before health care is provided.
 - Enroll employees retired from the military in the federal health care program.
 - Reduce the amount the state contributes to health care by \$14.20/month.
- **Eliminate two state holidays.** The Governor proposes to eliminate 2 state holidays to save the state an estimated \$3.1 million (\$1.7 million General Fund).
- **Cap the accrual of vacation and annual leave.** The Governor proposes to cap the accrual of vacation and annual leave at 640 hours. While the Administration indicates this will result in cost savings, it does not score any 2005-06 budget savings from this proposal.

Defined-Contribution Retirement Plan for New Employees. The Governor proposes an amendment to the Constitution that would prohibit the state or any of its political subdivisions from offering defined-benefit plans to new employees. This change would become effective July 1, 2007, and no savings or costs are included in the 2005-06 budget for this proposal. Employees would receive a state contribution each year into their employee pension account, and their benefit level at retirement would depend on the investment earnings of their individual account. Existing government employees would continue to receive a defined-benefit level at retirement, unless they voluntarily opt to convert to the defined-contribution plan.